

## **From the IRS Website** (July 2020)

### Question

I'm a minister and receive a salary plus a housing allowance. Is the housing allowance considered income and where do I report it?

### Answer

A minister's housing allowance (sometimes called a parsonage allowance or a rental allowance) is excludable from gross income for income tax purposes but not for self-employment tax purposes.

If you receive as part of your salary (for services as a minister) an amount officially designated (in advance of payment) as a housing allowance, and the amount isn't more than reasonable pay for your services, you can exclude from gross income the lesser of the following amounts:

- the amount officially designated (in advance of payment) as a housing allowance;
- the amount actually used to provide or rent a home; or
- the fair market rental value of the home (including furnishings, utilities, garage, etc.).

The payments officially designated as a housing allowance must be used in the year received.

Include any amount of the allowance that you can't exclude as wages on line 1 of [Form 1040, U.S. Individual Income Tax Return](#) or [Form 1040-SR, U.S. Tax Return for Seniors \(PDF\)](#). Enter "Excess allowance" and the amount on the dotted line next to line 1.

If your congregation furnishes housing in kind as pay for your services as a minister instead of a housing allowance, you may exclude the fair market rental value of the housing from income, but you must include the fair market rental value of the housing in net earnings from self-employment for self-employment tax purposes.

For more information on a minister's housing allowance, refer to [Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers](#).

**For information on earnings for clergy and reporting of self-employment tax, refer to [Tax Topic 417, Earnings for Clergy](#).**

## **Topic No. 417 Earnings for Clergy (from IRS website)**

A licensed, commissioned, or ordained minister is generally the common law employee of the church, denomination, sect, or organization that employs him or her to provide ministerial services. However, there are some exceptions, such as traveling evangelists who are independent contractors (self-employed) under the common law. Regardless of whether you're a minister performing ministerial services as an employee or a self-employed person, all of your earnings, including wages, offerings, and fees you receive for performing marriages, baptisms, funerals,

etc., are subject to income tax. However, the way you treat expenses related to those earnings differs if you earn the income as an employee or as a self-employed person.

### *Employee or Self-Employed*

For income tax purposes, facts and circumstances determine whether you're considered an employee or a self-employed person under common-law rules. Generally, you're an employee if the church or organization you perform services for has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action. For more information about the common-law rules, see [Publication 15-A, Employer's Supplemental Tax Guide \(PDF\)](#). If a congregation employs you for a salary, you're generally a common-law employee of the congregation and your salary is considered wages for income tax withholding purposes. However, amounts you receive directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are generally earnings from self-employment for income tax purposes. Both the salary you receive from the congregation and fees you receive from members of the congregation may be included for social security coverage purposes and subject to self-employment tax (see below).

If you're an independent contractor, the offerings or fees you receive for performing marriages, baptisms, funerals, etc. are self-employment income. Use [Schedule C \(Form 1040 or 1040-SR\), Profit or Loss From Business \(Sole Proprietorship\) \(PDF\)](#) to report these earnings and related expenses.

### *Housing Allowance*

A licensed, commissioned, or ordained minister who performs ministerial services as an employee may be able to exclude from gross income the fair rental value of a home provided as part of compensation (a parsonage) or a housing allowance provided as compensation if it is used to rent or otherwise provide a home. A minister who is furnished a parsonage may exclude from gross income the fair rental value of the parsonage, including utilities. However, the amount excluded can't be more than reasonable compensation for the minister's services.

A minister who receives a housing allowance may exclude the allowance from gross income to the extent it's used to pay expenses in providing a home. Generally, those expenses include rent, mortgage interest, utilities, and other expenses directly relating to providing a home. The amount excluded can't be more than reasonable compensation for the minister's services.

If you own your home, you may still claim deductions for mortgage interest and real property taxes. If your housing allowance exceeds the lesser of your reasonable compensation, the fair rental value of the home, or your actual expenses directly relating to providing the home, you must include the amount of the excess in income.

In order to be able to exclude the housing allowance from income, the minister's employing organization must officially designate the housing allowance as such before paying it to the minister.

The fair rental value of a parsonage or the housing allowance is excludable only for income tax purposes. The minister must include the amount of the fair rental value of a parsonage or the housing allowance for social security coverage purposes.

### *Social Security Coverage*

The services you perform in the exercise of your ministry are generally covered by social security and Medicare under the self-employment tax system, regardless of your status under the common law. This means that your salary on [Form W-2, Wage and Tax Statement \(PDF\)](#), the net profit on Schedule C, and your housing allowance less pertinent deductible expenses are subject to self-employment tax on [Schedule SE \(Form 1040 or 1040-SR\), Self-Employment Tax \(PDF\)](#).

See [Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers](#) for limited exceptions from self-employment tax.

### *Exemption from Self-Employment Tax*

You can request an exemption from self-employment tax for your ministerial earnings, if you're opposed to certain public insurance for religious or conscientious reasons. You can't request exemption for economic reasons. To request the exemption, file [Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners \(PDF\)](#) with the IRS. You must file it by the due date of your income tax return (including extensions) for the second tax year in which you have net earnings from self-employment of at least \$400. This rule applies if any part of your net earnings from each of the two years came from the performance of ministerial services. The two years don't have to be consecutive. The exemption is granted if IRS approves your application. Once granted, the exemption is irrevocable.